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**FISCAL IMPACT STATEMENT**

**LS 7134**

**BILL NUMBER:** SB 419

**NOTE PREPARED:** Jan 3, 2004

**BILL AMENDED:**

**SUBJECT:** Borrowing by CRED Districts.

**FIRST AUTHOR:** Sen. Broden

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** The bill authorizes the State Board of Finance to make an interest-free loan of up to \$10,000,000 from the state General Fund to the advisory commission on industrial development of a city that established a Community Revitalization Enhancement District (CRED) and that meets certain other conditions. The bill also provides that an advisory commission on industrial development may use the loan proceeds for the acquisition of land, buildings, and structures in the CRED and for the demolition, removal, renovation, rehabilitation, and enlargement of buildings and structures, and site and infrastructure improvements in the district.

**Effective Date:** July 1, 2004.

**Explanation of State Expenditures:** The bill authorizes the State Board of Finance to make an interest-free loan of up to \$10 M to a qualified Community Revitalization Enhancement District (CRED). The loan could be for a term of up to 10 years. The bill also appropriates an amount sufficient to make the loan. A CRED would qualify for such a loan if: (1) it was established before July 1, 2002; (2) it contains obsolete buildings containing at least 2 M square feet of interior floor space; and (3) the obsolete buildings are significant obstacles to redevelopment. CREDs have been established in Bloomington, Marion, and South Bend. It is not known which of the existing CREDs could qualify for a loan, nor are potential loan amounts or terms determinable. The cost to the state in providing a loan under the bill would be the interest earnings foregone on the loaned funds. Assuming interest rates ranging from 2.5% to 4.6%, the cost of a \$10 M loan for a term of 10 years could potentially range from about \$2.8 M to \$5.8 M. The interest rates are based on the yield on investments obtained by the Treasurer of State in FY 2003, and the average yield obtained from FY 1999 to FY 2003.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** The bill requires a CRED receiving a loan under the bill to repay the loan only from incremental income and sales tax revenue generated in the CRED. However, if the incremental revenues are insufficient to repay the entire loan amount, the bill allows the State Board of Finance to offset the remainder from property tax replacement credit distributions and homestead credit distributions otherwise due to the city in which the CRED is located. It is important to note, that CREDs are limited to 15 years duration. In addition, CREDs that could potentially qualify for a loan under this bill may not receive incremental tax revenue allocations in excess of \$1.0 M per year.

*Background:* Current statute authorizes the designation of CREDs in the City of Marion and municipalities in Allen, Delaware, Monroe, and St. Joseph Counties. P.L. 224-2003 also authorized the City of Indianapolis and all second class cities to designate CREDs. CREDs have been established in Bloomington, Marion, and South Bend. Only two distributions of incremental sales and income taxes have been made. Bloomington has received \$492,005, and Marion has received \$24,241.

CREDs may be designated by an advisory commission on industrial development or, under certain circumstances, by the legislative body of a county or municipality. The resolution designating the CRED must be submitted to the Budget Committee for review and recommendation to the State Budget Agency (SBA). CREDs are authorized to capture incremental income and sales tax revenue generated within the district. However, the allocations may be made only if the resolution designating the CRED is approved by the SBA. The following taxes may be allocated to a CRED: Gross Retail and Use Taxes, the Adjusted Gross Income Tax, and CAGIT, COIT, and CEDIT. Incremental tax allocations to CREDs designated under P.L. 224-2003 are limited to 75% of the incremental tax revenue up to \$750,000 per year. Allocations to other CREDs are limited to \$1.0 M per year in incremental tax revenues. This revenue is to be deposited in the Industrial Development Fund of the city designating the CRED. A CRED is limited to 15 years at the time of designation. Current law also allows all taxing units, except townships, to impose a levy for the Industrial Development Fund at a rate of up to \$0.0167 per \$100 of assessed valuation. The proceeds from the tax levy may be pledged for the payment of bonds and obligations issued in a CRED.

**State Agencies Affected:** State Board of Finance.

**Local Agencies Affected:** Community Revitalization Enhancement Districts.

**Information Sources:** *Annual Report of the Treasurer of State*, FY 1999-2003.

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